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MEMORANDUM

DATE: Monday, June 9, 2014

TO: Richard Ellis, State Treasurer
David Damschen, Deputy State Treasurer

FROM: Brain F. Baker
Zions Bank Public Finance

RE: Legacy Preparatory Academy Charter School

The purpose of this report is to document Legacy Preparatory Academy Charter School's ("Legacy," "LPA," or the "School") adherence to the eligibility standards created for participation in the Utah Charter School Credit Enhancement Program (the "Program"). The analysis contained herein is based on Legacy's full application to the State Charter School Finance Authority (the "Authority"), subsequent conversations with the School's finance team, as well as additional information and documents submitted in response to follow up requests by the Authority.

The School has provided all information requested subsequent to the submission of the initial application. All questions have been answered to my satisfaction. This report will examine each category of the Program's "Standards for Participation," including Basic Eligibility, Enrollment/Student Demand, Academic Performance, Management, Financial Performance, and Bond Documents. In each of these categories, the School met the basic eligibility requirements for participation in the Program, as detailed below. This report should be examined in direct conjunction with the Letter of Certification for Legacy Preparatory Academy from the State Charter School Board ("SCSB Letter"), which provides detailed analysis and historical information on Enrollment/Student Demand, and Academic Performance.

Legacy Preparatory Academy—Introduction

Legacy Preparatory Academy is a K-9 charter school located in North Salt Lake and Woods Cross. The School's charter was granted in 2005. Between 2010 and 2012 Legacy expanded to teach all grades through the end of high school. In 2013 the School determined it made sense to eliminate high school and continue as a K-9 charter with larger enrollments in each grade. LPA's enrollment cap has been increased five times, from a beginning count of 500 up to 1,200 for the 2014-2015 year. With strong retention and a large waiting list, they should not have a problem increasing from the current enrollment of 1,083 to their enrollment cap as planned over the next three years.

Legacy's focus and mission has remained constant from their original charter application. The School's mission statement reads:

"Legacy's mission is to:
• Provide a classically-based curriculum that is thorough and challenging
• Integrate fine arts to enhance learning
• Teach the value of public virtue to promote respect
• Engage parents as real partners to share in enriching student education
• Honor each child as an individual and foster their innate curiosity and desire to learn"

The School plans to issue approximately $16.64 million in revenue bonds to refinance its existing 20080and 2009 bonds ($12,795,000) and fund new construction on the Woods Cross campus ($3,845,000).

Basic Eligibility

1. Legacy's 2014 bonds will be issued through the Authority.

2. The SCSB Letter indicates that LPA is in good standing with the State Charter School Board.

3. The School has obtained an investment grade rating of "BBB-" from Standard & Poor's ("S&P"). Key credit concerns from the private rating report are listed below, followed by Zions' response to these concerns :
   a. Moderately high pro-forma MADS debt burden of 17% based on fiscal 2013 expenditures— 17% is below the area of grave concern. Debt burden improves as a result of the refunding.
   b. Very short operating history, with mixed results on a full-accrual basis—the school has an 8-year operating history, which hardly seems "very short." There have been bumps along the way relative to financial performance.
   c. Possibility of charter revocation—this is a non-issue.

S&P also cites the following as positive credit factors that offset the above-listed weaknesses:
   a. Strong demand at the elementary and junior high school grade levels and an adequate wait list.
   b. Good pro-forma MADS coverage equal to 1.5x in fiscal 2013.
   c. Healthy unrestricted reserves equal to 82 days cash on hand based on latest audit.

4. Legacy Preparatory Academy is in its 8th full year of operations. Financial operating history, as demonstrated by past audited financials, cash position, and increasing unrestricted fund balance, is satisfactory, although when the school eliminated high school grades and returned to teaching only K-9, financial performance metrics were impacted.

5. The School has a defined and specific mission. Legacy's mission is to:
   - Provide a classically-based curriculum that is thorough and challenging
   - Integrate fine arts to enhance learning
   - Teach the value of public virtue to promote respect
   - Engage parents as real partners to share in enriching student education
   - Honor each child as an individual and foster their innate curiosity and desire to learn

6. LPA issued bonds in 2008 and 2009 which will be refinanced by the 2014 bonds. The School is not in default under its existing bonds.

Enrollment/Student Demand

7. The School has 1083 students enrolled this year.

8. Legacy operated at or above its enrollment cap each year between 2009 and 2011, when high school grades were discontinued. For the past three years the school has operated at 93% (for 2014) and 96% (for 2012 and 2013) of its enrollment cap. The drop of seventeen students between 2013 and 2014 (from 1,090 to 1,073) does not seem to be a significant issue. Table 1 from the SCSB Letter includes detailed enrollment history back to 2008.

9. Legacy Preparatory Academy exceeds the re-enrollment standard established by the SCSB in each of the past three years. The most recent total re-enrollment rate of 85%, coupled with the school's strong historical track record, indicate admitted students are generally staying at Legacy, although the retention drops off somewhat in the middle school grades. Table 2 from the SCSB Letter details historical enrollment and re-enrollment.

10. The School exceeds the ADM rate requirement. Over the last three years, LPA's Average Daily Membership rate has been 98.3%, 93.9%, and 96.4%.

11. The School has provided wait list statistics by grade, and has provided the detailed waiting list that includes descriptive and personal information on potential students to the Deputy State Treasurer. The current waiting list includes 667 potential students trying for admission in the 2014-2015 academic year. This number should continue to increase through October. The waiting list is strong and includes a satisfactory amount of students for every grade level offered.

In addition, re-enrollment statistics by grade level are strong, particularly for the elementary grades. For the 2013 school year, grade levels 1-6 had re-enrollment rates in excess of 90%, with re-enrollment for the middle school grades at approximately 70% or above. 91%.

Academic Performance

12. The SCSB Letter indicates that the School meets required academic standards. Table 3 from the SCSB Letter provides a breakdown of Legacy Preparatory Academy's performance relative to other schools. It is clear that the school is succeeding relative to UCAS benchmarks.

Management

13. The School has adopted reasonable management policies and practices that guide financial, debt, and risk management. The Board has adopted an acceptable Succession Plan as well as a Financial and Risk Management Plan, including post-issuance compliance.

14. Legacy Preparatory Academy has a six-member board serving three year terms that can be renewed at the approval of the Board. The board members have a diverse set of backgrounds, which include law, finance, marketing, business, and computer technology.

15. The School has contracted with Red Apple Financial as its management company. In addition, Legacy's executive director has been with school since inception.

16. Legacy Preparatory Academy's historical budgeted revenues and expenditures generally demonstrate "reasonable proficiency" in forecasting. Expenses deviated by 6.2% in 2011 as a result of the expansion to include high school grades.

Financial Performance

The School meets all of the current requirements for the Financial Performance section of the application.

17. Projections used by the School in financial forecasting appear reasonable. Legacy seems positioned to continue and improve its healthy financial standing of the past two years. LPA revenues are forecasted to grow at a similar rate to expenses. The School appears to be in a healthy financial position.

18. Debt Coverage Ratio

Requirement	Measure	Sufficient?
At least 105%	154%	Yes

Debt coverage ratio is calculated by dividing total revenues available for debt service by the maximum annual debt service payment anticipated for the new bonds. Revenues available for debt service is calculated by taking fiscal year 2013 net income from operations of $383,249 and adding back depreciation and amortization expense of $332,897 and interest expense of $925,020. This leaves net revenues available for debt service of $1,641,166. When this number is divided by anticipated maximum annual debt service of $1,056,275, the coverage is 154%.

For the past three years, Legacy has exceeded the required 105% coverage. Prior to 2011 the school had several difficult years related to the expansion to high school grades, and would not have met the 105% requirement.

	2013	2012	2011
Net Income Available for Debt Service	$1,641,166	$1,468,293	$1,260,860
Maximum Annual Debt Service	1,062,625	1,062,625	1,062,625
Debt Coverage Ratio	154%	138%	119%

19. Debt Burden Ratio

Requirement	Measure	Sufficient?
Less than 25%	15%	Yes

The debt burden ratio requirement is based on the level of the School's fund balance, which we calculate at 21% (cash of $1,394,125 divided by total operating expenses net of depreciation of $6,501,265). Debt burden ratio is calculated as maximum annual debt service ($1,062,625) divided by unrestricted operating revenues ($6,884,514), taken from 2013 audited financial statements.

	2013	2012	2011
Maximum Annual Debt Service	$1,062,625	$1,062,625	$1,062,625
Unrestricted Operating Revenues	6,884,514	5,933,615	5,068,113
Debt Burden Ratio	15%	18%	21%

In 2009 the School would have had insufficient operating revenues to meet this requirement.

20. Operating Margin

Requirement	Measure	Sufficient?
At least 7%	24%	Yes

Legacy Preparatory Academy's operating margin requirement of 7% or greater is based on the calculation for days cash on hand (calculated as cash divided by operating expenses multiplied by 365) of 78 days. Operating margin of 24% is calculated by dividing net income available for debt service of $1,641,166 (see calculation under Debt Coverage Ratio) by total revenues of $6,884,514.

	2013	2012	2011
Net Income Available for Debt Service	$1,641,166	$1,648,293	$1,260,860
Revenues	6,884,514	$5,933,615	5,068,113
Operating Margin	23.9%	24.7%	24.9%

21. Current Ratio

Requirement	Measure	Sufficient?
At least 150%	210%	Yes

The current ratio is defined as current unrestricted assets ($1,581,231 for 2013) divided by current liabilities ($754,572). The School has exceeded a 150% current ratio each of the last two years, but did not in 2011.

Legacy Preparatory Academy	2011	2012	2013
Current Assets	398,857	1,989,409	1,581,231
Current Liabilities	474,387	594,653	754,572
Current Ratio	84%	335%	210%

Bond Documents

20-23. LPA's legal bond documents have been reviewed by Chapman and Cutler in their capacity as bond counsel to the Authority, and all requirements have been incorporated. In addition, Ballard Spahr, as bond counsel to Legacy Preparatory Academy, has confirmed that each of the required legal provisions is present in the bond documents.